

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

**Aircraft Owners and Pilots Association and
Affiliates**

December 31, 2019 and 2018

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GRANT THORNTON LLP

1000 Wilson Boulevard, Suite 1400
Arlington, VA 22209

D +1 703 847 7500

F +1 703 848 9580

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees

Aircraft Owners and Pilots Association and Affiliates

We have audited the accompanying consolidated financial statements of Aircraft Owners and Pilots Association and Affiliates (the "Association"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Other Matters**Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedule of activities and changes in net assets for the year ended December 31, 2019 on page 24 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aircraft Owners and Pilots Association and Affiliates as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Arlington, Virginia
April 21, 2020

Aircraft Owners and Pilots Association and Affiliates
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31,

ASSETS	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,620,000	\$ 1,821,000
Restricted cash	1,948,000	1,935,000
Contract fees and other receivables, net	757,000	1,572,000
Advertising and services receivables, net	169,000	350,000
Advances and prepaid expenses	2,367,000	2,444,000
Total current assets	8,861,000	8,122,000
INVESTMENTS, AT FAIR VALUE	103,978,000	99,926,000
DEFERRED INCOME TAXES	550,000	437,000
PROPERTY AND EQUIPMENT, NET	12,675,000	10,059,000
OTHER ASSETS	1,000	1,000
Total assets	<u>\$ 126,065,000</u>	<u>\$ 118,545,000</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 191,000	\$ 410,000
Accrued expenses	5,276,000	11,884,000
Deferred revenue:		
Membership dues and subscriptions	13,028,000	11,709,000
Other deferred revenue	2,461,000	2,414,000
Financing loan payable	679,000	527,000
Other obligations	213,000	235,000
	21,848,000	27,179,000
LONG-TERM OBLIGATIONS		
Other obligations	3,904,000	3,812,000
Financing loan payable	3,958,000	2,027,000
	7,862,000	5,839,000
Total liabilities	29,710,000	33,018,000
NET ASSETS WITHOUT DONOR RESTRICTIONS	96,355,000	85,527,000
Total liabilities and net assets	<u>\$ 126,065,000</u>	<u>\$ 118,545,000</u>

The accompanying notes are an integral part of these consolidated financial statements.

Aircraft Owners and Pilots Association and Affiliates

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended December 31,

	2019	2018
Revenue		
Program services		
Membership dues and subscriptions	\$ 22,323,000	\$ 19,720,000
Advertising fees	6,529,000	6,682,000
Commissions and royalties	5,422,000	12,192,000
Products and services	4,960,000	5,291,000
	<u>39,234,000</u>	<u>43,885,000</u>
Contributions, contracts, and grants	11,072,000	8,300,000
Other income	704,000	728,000
	<u>51,010,000</u>	<u>52,913,000</u>
Expense		
Program services		
Mission (See Note A)	41,351,000	40,497,000
Products and services	8,193,000	12,970,000
	<u>49,544,000</u>	<u>53,467,000</u>
Support services		
General and administrative	5,981,000	6,080,000
Fundraising	590,000	578,000
	<u>6,571,000</u>	<u>6,658,000</u>
	<u>56,115,000</u>	<u>60,125,000</u>
Change in net assets from operating activities	(5,105,000)	(7,212,000)
Non-operating activities		
Impairment	-	(836,000)
Return on investments, net	16,250,000	(5,474,000)
	<u>16,250,000</u>	<u>(6,310,000)</u>
Change in net assets from operating and nonoperating activities, before income taxes and discontinued operations	11,145,000	(13,522,000)
Income tax provision	317,000	294,000
Change in net assets before discontinued operations	10,828,000	(13,816,000)
Discontinued operations (See Note A)		
Discontinued operations activities	-	24,060,000
Income tax provision - discontinued operations	-	6,589,000
	<u>-</u>	<u>24,060,000</u>
<i>Gain from discontinued operations</i>	-	17,471,000
Change in net assets	10,828,000	3,655,000
Net assets without restriction, beginning of year	85,527,000	81,872,000
Net assets without restriction, end of year	\$ 96,355,000	\$ 85,527,000

The accompanying notes are an integral part of these consolidated financial statements.

Aircraft Owners and Pilots Association and Affiliates
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2019

	Program Services			Supporting Services			Total
	Mission	Products and services	Total	General and administrative	Fundraising	Total	
Compensation and benefits	\$ 21,701,000	\$ 4,604,000	\$ 26,305,000	\$ 2,446,000	\$ 37,000	\$ 2,483,000	\$ 28,788,000
Professional and software fees	4,499,000	2,032,000	6,531,000	1,810,000	224,000	2,034,000	8,565,000
Production and distribution	5,622,000	435,000	6,057,000	166,000	305,000	471,000	6,528,000
Meetings, events, membership	4,221,000	367,000	4,588,000	44,000	-	44,000	4,632,000
Rentals and maintenance	1,678,000	343,000	2,021,000	729,000	-	729,000	2,750,000
Depreciation and amortization	1,320,000	81,000	1,401,000	552,000	-	552,000	1,953,000
Regulatory fees	1,190,000	324,000	1,514,000	234,000	24,000	258,000	1,772,000
Contributions	1,120,000	7,000	1,127,000	-	-	-	1,127,000
Total expenses reported by function	<u>\$ 41,351,000</u>	<u>\$ 8,193,000</u>	<u>\$ 49,544,000</u>	<u>\$ 5,981,000</u>	<u>\$ 590,000</u>	<u>\$ 6,571,000</u>	<u>\$ 56,115,000</u>

The accompanying notes are an integral part of this consolidated financial statement.

Aircraft Owners and Pilots Association and Affiliates
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018

	Program Services			Supporting Services			Total
	Mission	Products and services	Total	General and administrative	Fundraising	Total	
Compensation and benefits	\$ 21,241,000	\$ 7,440,000	\$ 28,681,000	\$ 2,520,000	\$ 34,000	\$ 2,554,000	\$ 31,235,000
Professional and software fees	4,485,000	2,284,000	6,769,000	1,588,000	230,000	1,818,000	8,587,000
Production and distribution	5,632,000	863,000	6,495,000	279,000	294,000	573,000	7,068,000
Meetings, events, membership	3,760,000	594,000	4,354,000	45,000	1,000	46,000	4,400,000
Rentals and maintenance	1,938,000	377,000	2,315,000	782,000	-	782,000	3,097,000
Depreciation and amortization	1,799,000	653,000	2,452,000	629,000	-	629,000	3,081,000
Regulatory fees	1,048,000	752,000	1,800,000	237,000	19,000	256,000	2,056,000
Contributions	594,000	7,000	601,000	-	-	-	601,000
Total expenses reported by function	<u>\$ 40,497,000</u>	<u>\$ 12,970,000</u>	<u>\$ 53,467,000</u>	<u>\$ 6,080,000</u>	<u>\$ 578,000</u>	<u>\$ 6,658,000</u>	<u>\$ 60,125,000</u>

The accompanying notes are an integral part of this consolidated financial statement.

Aircraft Owners and Pilots Association and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 10,828,000	\$ 3,655,000
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Loss on disposal of fixed assets	-	62,000
Discontinued operations gain and goodwill impairment	-	(27,208,000)
Unrealized (gains) losses	(13,936,000)	8,272,000
Realized gains	(2,123,000)	(2,372,000)
Reinvested dividends and interest, net	(456,000)	(363,000)
Investment expenses related to deferred compensation	265,000	(62,000)
Depreciation	1,953,000	2,669,000
Amortization	-	407,000
Deferred income taxes	(113,000)	707,000
Changes in operating assets and liabilities:		
Receivables	996,000	1,010,000
Advances and prepaid expenses	77,000	(561,000)
Intangibles and other assets	-	6,185,000
Accounts payable	(219,000)	(4,314,000)
Accrued expenses	(6,630,000)	6,752,000
Deferred revenue	1,366,000	(579,000)
Long-term obligations	92,000	(514,000)
Net cash used in operating activities	<u>(7,900,000)</u>	<u>(6,254,000)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	47,415,000	33,964,000
Purchases of investments	(35,217,000)	(55,284,000)
Proceeds from sale of fixed assets	159,000	3,666,000
Proceeds from discontinued operations	-	27,383,000
Purchases of property and equipment	<u>(4,728,000)</u>	<u>(1,644,000)</u>
Net cash provided by investing activities	<u>7,629,000</u>	<u>8,085,000</u>
Cash flows from financing activities:		
Loan proceeds	2,714,000	171,000
Repayment on loans and leases	<u>(631,000)</u>	<u>(3,819,000)</u>
Net cash provided by (used in) financing activities	<u>2,083,000</u>	<u>(3,648,000)</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	1,812,000	(1,817,000)
Cash, cash equivalents, and restricted cash at beginning of year	<u>3,756,000</u>	<u>5,573,000</u>
Cash, cash equivalents, and restricted cash at end of year	<u><u>\$ 5,568,000</u></u>	<u><u>\$ 3,756,000</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

The Aircraft Owners and Pilots Association ("AOPA"), a non-profit tax-exempt individual membership association, preserves the freedom to fly by fostering the health of general aviation worldwide, providing our members with high value products and services, and attracting the financial support to make it all happen.

The accompanying consolidated financial statements include the accounts of AOPA and its wholly owned taxable subsidiary AOPA Holdings Corporation ("AHC") and its affiliate AOPA Political Action Committee ("PAC") (collectively, the "Association"). AHC coordinates the delivery of products and services to AOPA members and pilots, provides marketing services related to the Association's products and services, and engages in business activities to provide support for AOPA's mission. AOPA's program services includes two programs: mission and product and services. AOPA's mission activities include advocacy and representation, publications, member engagement and member development. PAC is a federal political action committee that solicits contributions from donors and contributes to the political campaign of federal election candidates. AOPA Insurance Agency, Inc. ("AOPAIA") is a wholly owned subsidiary of AOPA Holdings Corporation ("AHC"). AOPAIA provides marketing and program support for non-aviation insurance programs and served as an aviation insurance broker in 2018. AOPAIA's aviation insurance book of business was sold in December 2018. Additional information is provided in the discontinued operations footnote below.

Discontinued Operations

Effective December 1, 2018, AOPAIA sold its aviation insurance book of business to Assured Partners Aerospace ("APA"). The sale included the associated asset and liability accounts including the fiduciary bank account, fixed assets, prepaids, insurance premiums receivable and payable, and deferred revenue.

Continuing operations:	2018
Net loss from continuing operations before income taxes	\$ (7,212,000)
Less: income taxes from continuing operations	294,000
Net loss from continuing operations after income taxes	(6,918,000)
Discontinued operations:	
Gain from discontinued operations	24,060,000
Less: income taxes from discontinued operations	6,589,000
Gain from discontinued operations after taxes	\$ 17,471,000

Basis of Accounting

The consolidated financial statements of the Association have been prepared on the accrual basis, which conforms to accounting principles generally accepted in the United States of America ("U.S. GAAP").

The consolidated financial statements include the accounts of AOPA and its affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Cash and Cash Equivalents

The Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents except for short-term investments managed by the Associations' investment manager as part of the long-term investment strategies.

Restricted Cash

Restricted cash includes PAC contributions of \$1,948,000 and \$1,935,000 at December 31, 2019 and 2018, respectively. The funds are restricted as to use by PAC federal campaign activities.

Concentration of Credit Risk

Financial instruments that potentially subject the Association to a concentration of credit risk include cash deposits with commercial banks. The Association's cash management policies limit its exposure to a concentration of credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation ("FDIC").

From time to time, the Association maintains cash balances with financial institutions which may exceed federally insured limits. The Association has not experienced any credit losses and management does not consider this to be a significant risk. Amounts exceeding established FDIC limits at December 31, 2019 total approximately \$2,906,000. These funds are maintained for traditionally high first quarter funding requirements.

Liquidity

The Association's financial assets available for one year for general expenditures at December 31, 2019 and 2018 totaled \$6,613,000 and \$5,251,000, respectively. The financial assets are not subject to contractual restrictions that make them unavailable for general expenditures within one year. The accounts receivable is subject to implied time restrictions but are expected to be collected within one year. In addition, the Association currently holds investments with a redemption period of one year or less, excluding SERP investments, totaling approximately \$102,786,000 and \$98,593,000 as of December 31, 2019 and 2018, respectively. It is the intention of management to hold investments in excess of one year, therefore all investments are excluded from the liquidity table below.

	2019	2018
Cash and cash equivalents	\$ 3,620,000	\$ 1,821,000
Cash and cash equivalents - investments	2,067,000	1,508,000
Contract fees and other receivables, net	757,000	1,572,000
Advertising and services receivables, net	169,000	350,000
	<u>6,613,000</u>	<u>5,251,000</u>
Financial assets available within one year	\$ 6,613,000	\$ 5,251,000

Investments

The Association reports investments in money market funds, mutual funds, bond-backed mutual funds, and alternative investments at fair value.

Investment gains and losses, net of management fees, are included in the consolidated statements of activities and changes in net assets and are reported as non-operating activity.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

Legal Service Plan

The Association provides a Legal Service Plan through the Pilot Protection Service whereby enrolled members receive certain legal services in connection with aviation tax matters, aviation contractual issues, and alleged violations of regulations as administered by the Federal Aviation Administration. Revenues are recognized on a pro-rata basis over the period of Pilot Protection Service participation. At December 31, 2019 and 2018, \$393,000 and \$386,000, respectively, was accrued for estimated claims and related costs under the plan.

Net Assets

Net assets without donor restrictions are a result of operations and, accordingly, are available to meet the general operating needs of the Association.

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support in the consolidated statements of activities.

Revenue Recognition

The Association adopted ASC Topic 606, Revenue from Contracts with Customers (ASC 606), effective January 1, 2019. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five steps of the model include: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue when (or as) the Association satisfies a performance obligation.

The Association recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects the consideration the Association expects to be entitled to in exchange for those goods or services. ASC 606 also requires new and expanded disclosures regarding revenue recognition to ensure an understanding as to the nature, amounts, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Association has identified membership dues and subscriptions, advertising fees, commissions and royalties, products and services, and contracts as revenue categories subject to the adoption of ASC 606. Contributions, grants, rental income, and return on investments are exempt from ASC 606.

The results of applying ASC 606 using the modified retrospective approach did not have a material impact on the consolidated financial positions, changes in net assets, cash flows, business processes, controls or systems of the Association for the periods ending December 31, 2019 and 2018.

A description of the Association's revenue categories accounted for under ASC 606 follows:

Membership dues, subscriptions, and products sales and services revenues are recognized over the period that member services are provided.

Advertising fees are recognized in the period in which the advertisements appear in the Association's media channels.

Through November 30, 2018, AOPAIA aviation commission income is recorded at the later of the billing date or the effective date of the related insurance policies. Commissions billed on policies that are not yet effective are reflected as deferred revenue and earned when the policies become effective.

Contract royalty and marketing fees are recognized over time as performance obligations are satisfied per each contract.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Aviation Finance Brokerage commission income is recorded at the closing date of the loan or periodically as payments are received.

Sponsorship revenue is considered earned when the Association has substantially met its obligations in accordance with the terms of sponsorship agreement.

Educational revenue is recognized as training and educational courses are completed or after two years of enrollment, whichever is sooner.

A description of the Association's revenue category exempt under ASC 606 follows:

The Association reports contributions and grants, including promises to give, as restricted support if they are received with donor stipulations that restrict the use of the donated assets. Conditional promises to give are recognized when the conditions on which they depend have been substantially met.

Effective January 1, 2019, the Association adopted FASB ASU 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. In accordance with ASU 2018-08, the Association evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, the Association applies guidance under ASC 606. If the transfer of assets is determined to be a contribution, the Association evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before the Foundation is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

Accounts Receivable

The carrying value of the Association's receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is based on the age of the outstanding receivable and historical collection trends. If events or changes in circumstances indicate that a specific receivable balance may be unrealizable, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Receivable balances deemed uncollectible are written off against the allowance for doubtful accounts.

Advances and Prepaid Expenses

Payments in advance of the receipt of goods and services are recorded as advances and recognized as expense when the related goods and services are received.

Income Taxes

Under the provisions of the Internal Revenue Code Section 501(c)(4) and the applicable local income tax regulations, the Association is exempt on income other than unrelated business income and income derived from the taxable subsidiary AHC. For the years ended December 31, 2019, 2018, 2017 and 2016, the Association generated unrelated business income. Taxes associated with this are included within the consolidated tax provision.

Deferred income taxes are provided for temporary differences in the recognition of certain income and expenses for financial and tax reporting. These temporary differences relate to accrued expenses, net operating loss carryover, deferred compensation, contribution carryover, depreciation, and bad debt reserves.

PAC is an exempt organization under Internal Revenue Code Section 527.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

The Association follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Association has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The tax years ending December 31, 2019, 2018, 2017 and 2016 are still open to audit for both federal and state purposes.

The Association has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program costs charged to each program based on the direct costs charged to each program. The expenses are presented by natural classification and functional classification in the consolidated statement of functional expenses.

Use of Estimates

The preparation of consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. In accordance with ASC 820, the Association classifies its assets and liabilities into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies and inputs used for assets measured at fair value, as well as the general classification pursuant to the valuation hierarchy. Investments in equity securities are valued at the quoted prices in an active market and are classified within Level 1 of the fair value hierarchy. When quoted prices are available in an active market, corporate debt securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. When quoted market prices are not available or accessible, the investments are classified within Level 3 of the fair value hierarchy and these fair values are estimated using pricing models, matrix pricing, or discounted cash flow models. The Association does not hold any corporate debt securities for which quoted market prices are not available or accessible.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date and that difference may be material to the Association’s financial statements.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Measure of Operations

The change in net assets from operating activities reflected on the accompanying consolidated statements includes primarily activities closely related to mission and product and services functions of the Association. Amounts not included in the measure of operations consists of the net return on investments including realized and unrealized gains and losses, discontinued operations gain, and a loss on goodwill impairment.

Reclassifications

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year presentation. The Association reclassified restricted cash to conform to Accounting Standard Update 2016-18.

NOTE B - INVESTMENTS

The components of the Association's investment portfolio are as follows at December 31:

	2019		2018	
	Cost	Market value	Cost	Market value
Alternative investments	\$ 50,277,000	\$ 62,230,000	\$ 47,261,000	\$ 50,329,000
Common stock and mutual funds	29,224,000	31,444,000	26,899,000	24,518,000
Bond-backed mutual funds	6,427,000	6,537,000	6,773,000	6,736,000
Money market funds	2,067,000	2,067,000	1,508,000	1,508,000
Cash and cash equivalents	1,700,000	1,700,000	16,835,000	16,835,000
	<u>\$ 89,695,000</u>	<u>\$103,978,000</u>	<u>\$ 99,276,000</u>	<u>\$ 99,926,000</u>

Investments were measured at fair value as of December 31 based on the following levels of hierarchy:

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

	Amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
2019:				
Common stock and mutual funds	\$ 31,444,000	\$ 31,444,000	\$ -	\$ -
Bonds backed market funds	6,537,000	6,537,000	-	-
Money mutual funds	2,067,000	2,067,000	-	-
	40,048,000	40,048,000	-	-
Investment measured at NAV ^(a)	62,230,000	-	-	-
Cash and cash equivalents	1,700,000	-	-	-
	<u>\$103,978,000</u>	<u>\$ 40,048,000</u>	<u>\$ -</u>	<u>\$ -</u>
2018:				
Common stock and mutual funds	\$ 24,518,000	\$ 24,518,000	\$ -	\$ -
Bonds backed mutual funds	6,736,000	6,736,000	-	-
Money market funds	1,508,000	1,508,000	-	-
	37,762,000	32,762,000	-	-
Investments measured at NAV ^(a)	50,329,000	-	-	-
Cash and cash equivalents	16,835,000	-	-	-
	<u>\$ 99,926,000</u>	<u>\$ 32,762,000</u>	<u>\$ -</u>	<u>\$ -</u>

^(a) In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

- *Money market funds, bond backed mutual funds, common stocks, and mutual funds:* Valued at the closing price reported on the active market on which the individual (or similar) securities are traded.
- *Alternative investments:* This category includes investments in commingled, hedge funds, or private equity funds, which are valued by applying the Association's ownership percentage in the partnership to the total value of the underlying investments of the fund.
- *Cash and cash equivalents:* This category includes holdbacks on sales of alternative investments at December 31, 2019 that will be reinvested in alternative investments in 2020.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

result in a different fair value measurement at the reporting date and that difference may be material to the Association's consolidated financial statements.

The table below presents additional information for the Association's investments, as of December 31, 2019, whose fair value is estimated using the practical expedient of reported net asset value ("NAV"). These disclosures are required for all investments that are eligible to be valued using the practical expedient as defined in ASU 2009-12, regardless of whether the practical expedient has been applied:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Expected liquidation term</u>	<u>Redemption terms</u>	<u>Redemption restrictions</u>	<u>Redemption restriction at 12/31/2019</u>
Commingled	\$ 9,989,000	\$ -	Daily	Daily	Yes	Yes
Commingled	37,884,000	\$ -	Monthly	Monthly	Yes	Yes
Commingled	<u>4,966,000</u>	\$ -	Quarterly	Quarterly	Yes	Yes
	<u>\$ 52,839,000</u>	-				
Hedge funds ^(a)	9,388,000	\$ -	Quarterly	Quarterly	Yes	Yes
Hedge funds ^(a)	959,000	\$ -	Annually	Annually	Yes	Yes
Hedge funds ^(a)	<u>201,000</u>	\$ -	N/A	N/A	N/A	N/A
	<u>\$ 10,548,000</u>	-				
Private equity ^(a)	<u>\$ 1,342,000</u>	\$ -	N/A	N/A	N/A	N/A

^(a) This class includes several commingled, hedge funds, or private equity funds that invest primarily in international and domestic equity securities to achieve capital appreciation. The fair values of the investments have been estimated by using the NAV per share of the funds.

Aircraft Owners and Pilots Association and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

The table below presents additional information for the Association's investments, as of December 31, 2018, whose fair value is estimated using the practical expedient of reported NAV. These disclosures are required for all investments that are eligible to be valued using the practical expedient as defined in ASU 2009-12, regardless of whether the practical expedient has been applied:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Expected liquidation term</u>	<u>Redemption terms</u>	<u>Redemption restrictions</u>	<u>Redemption restriction at 12/31/2018</u>
Commingled	\$ 3,369,000	\$ -	Daily	Daily	Yes	Yes
Commingled	25,260,000	\$ -	Monthly	Monthly	Yes	Yes
Commingled	<u>6,579,000</u>	\$ -	Quarterly	Quarterly	Yes	Yes
	<u>\$ 35,208,000</u>					
Hedge funds ^(a)	\$ 1,423,000	\$ -	Monthly	Monthly	Yes	Yes
Hedge funds ^(a)	9,299,000	\$ -	Quarterly	Quarterly	Yes	Yes
Hedge funds ^(a)	792,000	\$ -	Annually	Annually	Yes	Yes
Hedge funds ^(a)	<u>189,000</u>	\$ -	N/A	N/A	N/A	N/A
	<u>\$ 11,703,000</u>					
Private equity ^(a)	<u>\$ 3,418,000</u>	\$ 350,000	N/A	N/A	N/A	N/A

^(a) This class includes several commingled, hedge funds, or private equity funds that invest primarily in international and domestic equity securities to achieve capital appreciation. The fair values of the investments have been estimated by using the NAV per share of the funds.

Return on investments consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Unrealized gains (losses)	\$ 13,936,000	\$ (8,272,000)
Realized gains	2,123,000	2,372,000
Reinvested dividends	532,000	414,000
Reinvested interest	277,000	263,000
Investment expenses relating to deferred and compensation and retention arrangements	(265,000)	62,000
Investment fees	<u>(353,000)</u>	<u>(313,000)</u>
	<u>\$ 16,250,000</u>	<u>\$ (5,474,000)</u>

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and are depreciated using the straight-line method over estimated useful lives as follows:

Building and improvements	5 - 35 years
Aircraft	5 - 30 years
Equipment, vehicles and other	3 - 10 years

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Property and equipment consisted of the following at December 31:

	2019	2018
Building and improvements	\$ 14,151,000	\$ 11,691,000
Equipment, vehicles and other	12,523,000	15,762,000
Aircraft	4,835,000	1,483,000
Land and improvements	1,279,000	1,279,000
Assets in progress	595,000	247,000
	<u>33,383,000</u>	<u>30,462,000</u>
Accumulated depreciation	<u>(20,708,000)</u>	<u>(20,403,000)</u>
	<u>\$ 12,675,000</u>	<u>\$ 10,059,000</u>

Fixed assets with an original cost of \$1,801,000 and \$8,461,000 and accumulated depreciation of \$1,642,000 and \$4,545,000 were disposed of during 2019 and 2018, respectively.

Depreciation expense was \$1,953,000 and \$2,669,000 for 2019 and 2018, respectively.

NOTE D - ACQUISITIONS

Intangible Assets Other Than Goodwill

Intangible assets other than goodwill include copyrights and costs of completing the acquisition of Flight Training magazine and purchased aviation insurance policies. As of December 31, 2018, it was determined the Flight Training magazine was impaired, and, as a result, the carrying value was reduced to \$0 resulting in a non-operating loss of \$836,000. As a result of the AOPAIA book of business sale effective December 1, 2018, these intangibles were written-off.

Goodwill

Goodwill represents the excess of the purchase price over the net amount assigned to identifiable assets acquired and liabilities assumed in the purchase of the minority interest in AOPAIA, under a purchase agreement with AON Risk Services, Inc. ("ARS"). As of January 1, 2016, AOPA sold its ownership of AOPAIA to its subsidiary, AOPA Holdings Corporation and elected to implement the provisions of Accounting Standards Update ("ASU") 2014-2, *Intangibles-Goodwill and Other*. As such, beginning January 1, 2016 through the sale of the aviation book of business effective December 1, 2018, goodwill was amortized on a straight-line basis over 10 years. During 2018, the Association sold its aviation insurance book of business. Goodwill amortization expense was \$0 and \$407,000 for the years ended December 31, 2019 and 2018, respectively.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

NOTE E - INCOME TAXES

The income tax provision consisted of the following for the years ended December 31:

	2019	2018
Current	\$ 301,000	\$ 6,176,000
Deferred	16,000	707,000
	<u>\$ 317,000</u>	<u>\$ 6,883,000</u>

Income tax provision from continuing and discontinued operations for years ended December 31:

	2019	2018
Continuing operations	\$ 317,000	\$ 294,000
Discontinued operations	-	6,589,000
Total income tax provision	<u>\$ 317,000</u>	<u>\$ 6,883,000</u>

Deferred tax assets consisted of the following for the years ended December 31:

	2019	2018
Deferred compensation	\$ 298,000	\$ 353,000
Net operating losses	989,000	370,000
Accrued paid time off and other payroll	49,000	143,000
Accrued legal service plan	108,000	106,000
Depreciation and amortization	(12,000)	201,000
Unrealized gains	(59,000)	(15,000)
Prepaid and bad debt reserves	(22,000)	(34,000)
Deferred revenue	-	(129,000)
Other	(80,000)	14,000
Valuation allowance	(721,000)	(572,000)
	<u>\$ 550,000</u>	<u>\$ 437,000</u>

Income taxes paid totaled \$6,533,000 and \$148,000 for the years ended December 31, 2019 and 2018, respectively.

NOTE F - OTHER OBLIGATIONS

Short-term obligations consist of \$213,000 and \$235,000 for the legal service plan reserve for the years ended December 31, 2019 and 2018, respectively.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Long-term obligations consist of the following at December 31:

	2019	2018
AOPA lifetime memberships	\$ 2,151,000	\$ 2,119,000
Deferred compensation and retirement plan accruals	1,193,000	1,332,000
Other long-term accrued liabilities	287,000	127,000
Legal service plan reserves	180,000	151,000
Aircraft reserves	93,000	83,000
	<u>\$ 3,904,000</u>	<u>\$ 3,812,000</u>

The Association amortizes the lifetime membership liability based on remaining life expectancy of the participant base, which is evaluated on an annual basis.

NOTE G - FINANCING

In February 2019, the Association entered into a financing agreement with 1st Source Bank in the amount of \$2,714,000 with an outstanding balance of \$2,610,000 as of December 31, 2019. In July 2018, the Association converted its revolving Line of Credit ("LOC") agreement with Bank of America, N.A. into a five-year term note. There was an outstanding balance of \$2,027,000 as of December 31, 2019.

At December 31, 2019, future minimum payments are as follows:

2020	\$ 880,000
2021	880,000
2022	880,000
2023	568,000
2024	257,000
Thereafter	<u>2,208,000</u>
Total	5,673,000
Less: interest	<u>(1,036,000)</u>
	4,637,000
Less: current portion	<u>(679,000)</u>
Total long-term financing loan payable	<u>\$ 3,958,000</u>

The Association entered into an interest rate swap agreement, with an effective date of February 25, 2019.

The Association agreed to swap its variable interest rate of one month of London Interbank Offered Rate ("LIBOR") plus 2.05% for a fixed rate equal to 4.88%. The fair value of the interest rate swap agreement was recorded on the consolidated statements of financial position in long-term obligations and the change in fair value is recorded in the consolidated statements of activities as unrealized investment gains or losses.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

As of and for the year ended December 31, 2019, amounts included within the consolidated financial statements relating to the interest rate swap agreement are as follows.

Effective date	Notational amount	Rate	Termination date	Fair value at December 31, 2019
February 25, 2019	\$ 2,610,000	4.88%	February 15, 2029	\$ 194,000

NOTE H - COMMITMENTS

The Association is committed under various long-term, non-cancelable leases and contracts for office space, hangar rental and equipment expiring at various times through December 2043. The Association records rent expense on a straight-line basis over the term of each lease. The following is a schedule of future minimum lease and contract payment commitments for operating leases at December 31, 2019:

Minimum lease contract payments

2020	\$ 542,000
2021	524,000
2022	256,000
2023	123,000
2024	62,000
Thereafter	756,000
	<hr/>
Total minimum lease payments	\$ 2,263,000
	<hr/>

Rental expense, net of sublease income, was \$1,122,000 and \$1,000,000 for 2019 and 2018, respectively.

The Association entered into non-cancelable lease agreements, as landlord, relating to a commercial real estate property. The future rental receipts expected under the non-cancelable operating leases are as follows at December 31, 2019:

2020	\$ 194,000
2021	199,000
2022	113,000
	<hr/>
Total minimum lease receipts	\$ 506,000
	<hr/>

Leased costs associated with office space in the amount of \$3,000 and \$5,000, respectively, was amortized for the years ended December 31, 2019 and 2018. Leased costs are amortized over the life of the lease.

Aircraft Owners and Pilots Association and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

NOTE I - EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

The Association provides its employees with an AOPA Employee's 401(k) Retirement Plan (the "DC Plan"). The supplemental contribution portion of the DC Plan can range from 2.5% to 10% of aggregated participants' eligible compensation at the discretion of the Board of Trustees. For the years ended December 31, 2019 and 2018, contribution expense under the DC Plan was \$583,000 and \$641,000, respectively.

The Association makes a matching contribution to the 401(k) portion of the DC Plan. For the years ended December 31, 2019 and 2018, matching contributions were \$830,000 and \$853,000, respectively.

Other Deferred Compensation Plan

The Association entered into various deferred compensation/retirement agreements with certain executives. For years ended December 31, 2019 and 2018, amounts due and funded under these arrangements totaled \$1,193,000 and \$1,332,000, respectively.

NOTE J - RELATED PARTY TRANSACTIONS

Certain officers and trustees of AOPA Foundation, Inc. are also officers and trustees of the Association. The Association provides various administrative support and other services to AOPA Foundation, Inc. Charges for these services were \$697,000 and \$663,000 in 2019 and 2018, respectively. The Association received grants from the AOPA Foundation, Inc. in the amount of \$8,459,000 and \$5,700,000 in 2019 and 2018, respectively, which is included in the Contributions, contracts, and grants line item on the consolidated statements of activities and change in net assets. The amount due from the AOPA Foundation, Inc. at December 31, 2019 and 2018 was \$212,000 and \$127,000, respectively, and is included in accounts receivable in the consolidated statements of financial position.

NOTE K - SUBSEQUENT EVENTS

The Association evaluated its December 31, 2019 consolidated financial statements for subsequent events through April 21, 2020, the date the consolidated financial statements were available to be issued and concluded that no additional disclosures are required.

Subsequent to year-end, the United States and global markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic. We are closely monitoring our investment portfolio and its liquidity and are actively working to minimize the impact of these declines. Our financial statements do not include adjustments to fair value that have resulted from these declines.

SUPPLEMENTARY INFORMATION

Aircraft Owners and Pilots Association and Affiliates

CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended December 31, 2019

	AOPA	Consolidated Affiliate, net of Eliminating Entries	AOPA Consolidated
Total revenue	\$ 47,534,000	\$ 3,476,000	\$ 51,010,000
Total expenses	51,508,000	4,607,000	56,115,000
Operating revenues in excess of operating expense before non-operating	(3,974,000)	(1,131,000)	(5,105,000)
Non-operating activities			
Return on investments, net	16,173,000	77,000	16,250,000
Total non-operating activities	16,173,000	77,000	16,250,000
Income tax provision	30,000	287,000	317,000
Change in net assets	12,169,000	(1,341,000)	10,828,000
Net assets, beginning of year	87,357,000	(1,830,000)	85,527,000
Net assets, end of year	<u>\$ 99,526,000</u>	<u>\$ (3,171,000)</u>	<u>\$ 96,355,000</u>